

The Effects of the Sales and Use Tax Exemption For Qualifying Data Processing Services Center's Purchases and Rentals

Compiled by
the staff of the
**Education and Taxability Section,
Wyoming Department of Revenue**

and edited by
Terri Lucero, Administrator

Sixth Edition

**2010, W.S. 39-15-105(a)(viii)(S) and W.S. 39-16-105(a)(viii)(H),
as amended**

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Overview

In the Wyoming Legislature 2010 Session Original House Bill No. 67 (Enrolled Act No. 31) was passed and signed by Governor Freudenthal into law on March 5, 2010. This act relates to taxation and revenue and provides for a sales and use tax exemption for the purchases and rentals of qualifying computer equipment including computers, servers, monitors, keyboards, storage devices and other peripherals, racking systems, cabling and trays that are necessary for the operation of a data processing services center when the aggregate purchase of the qualifying equipment exceeds two million dollars in any calendar year. The act provides for a reporting requirement and an effective date. This law took effect upon signature.

Subsequently House Bill No. 117 (Enrolled Act No. 17) was passed and signed by Governor Mead on February 18, 2011. This had the effect of amending and expanding the first Act. As it now reads, subject to meeting the applicable provisions of the exemption, the following purchases by a data processing services center (as defined in W.S. 39-15-101(a)(xliv)) are exempt:

(I) The sales price paid for the purchase or rental of qualifying prewritten and other computer software, computer equipment including computers, servers, monitors, keyboards, storage devices, containers used to transport and house such computer equipment and other peripherals, racking systems, cabling and trays that are necessary for the operation of a data processing services center when the aggregate purchase of the qualifying equipment exceeds two million dollars (\$2,000,000.00) in any calendar year;

(II) The sales price paid for the purchase or rental of qualifying uninterruptable power supplies, back-up power generators, specialized heating and air conditioning equipment and air quality control equipment used for controlling the computer environment necessary for the operation of a data processing services center when the aggregate purchase of the qualifying equipment exceeds two million dollars (\$2,000,000.00) in any calendar year;

This exemption is located within the “economic incentive” group of sales and use tax exemptions in the Wyoming statutes. [W.S. 39-15-105(a)(viii) and W.S. 39-16-105(a)(viii)] In order to avail themselves of the exemption a qualifying data processing services center must meet certain requirements.

In addition to having a physical location in the state where the qualifying equipment will be maintained and operated (until it is scheduled for replacement or until it has reached the end of its serviceable life) for Subparagraph (I) the qualifying data processing services center must make, or have made within the five years immediately preceding March 5, 2010, an initial capital investment of not less than five million dollars (\$5,000,000) and for Subparagraph (II) the qualifying data processing services center must make, or have made within the five years immediately preceding April 1, 2011, an initial capital investment of not less than fifty million dollars (\$50,000,000). Furthermore the data processing services center must have received certification from the Wyoming Business Council that the business has created or will create a

number of jobs in Wyoming that is appropriate to the size and stage of development of the data processing services center as determined by the Wyoming Business Council.

Specific Requirements by Statute

Wyo. Stat. Ann. § 39-15-105(b)

“The Wyoming business council, the department of workforce services and the department of revenue shall jointly report to the joint revenue interim committee on or before December 1 of each year that the exemption is in effect. If requested by the department of revenue, any person utilizing the exemption shall report to the department the amount of sales tax exempted, and the number of jobs created or impacted by the utilization of the exemption.”

This report is to evaluate the cumulative effects of the exemption from initiation of the exemption and shall include:

- (i) A history of employment in terms of the numbers of employees, full-time and part time employees, and rate of turnover classified by the 2007 edition, as amended, of the North American Industry Classification System (NAICS) code manufacturing section 31 – 33 from information collected by the Department of Employment;
- (ii) A history of wages and benefits disaggregated by gender for each job category; and
- (iii) A comprehensive history of taxes paid to the state of Wyoming.

Findings

This year represents the sixth year¹ the Department of Revenue has requested information from companies potentially utilizing the exemption. A cover letter attached to the return instructed the respondents that once completed, the information could be mailed, faxed or emailed back to the Department of Revenue’s Excise Tax Division. All of the respondents replied electronically.

For the calendar year ending December 2017, the Department surveyed eight entities that have been identified as data processing service centers in this State. This is the same number as was sent last year. Of those, the Department received responses from two. Both companies made sufficient purchases to utilize the exemption under part (I) but did not utilize part (II).

Exemption Cost

Companies claiming exemption on qualifying prewritten and other computer software, computer equipment including computers, servers, monitors, keyboards, storage devices, containers used to transport and house such computer equipment and other peripherals, racking systems, cabling

¹ The first report compiled purchases between March 2010 and June 2013, and was reported in the fall of 2013. After that the Department converted to calendar year reporting since the exemption allows for the accrual of tax on an annual basis.

and trays claimed \$195.68M in exempt purchases in 2017. Applying the 5.36% average 2017 tax rate for Wyoming this resulted in \$10.49M in unrealized sales and use tax.

Employment

The total reported employee count is 197, all of which are full time. This is 12 less than last year. By occupational classification, skilled workers made up the majority of the workforce, accounting for 46%, or 91 positions, in 2017. The second largest occupational classification is unskilled labor. In 2017, unskilled laborers filled another 66 positions, or 34% of the workforce. Since 2013, skilled and unskilled workers have made up between 72 and 83% of the total workforce.

The centers report that since 2013, on average, women have occupied between 9% and 13% of their combined work force. And by occupational classification since 2014, all reported that their administrative staffs were female. This contrasts with the percentage of women in skilled and unskilled positions, being between 6% and 10% in any given year.

Wage Earnings

Wages are higher than the state-wide average. In 2017, those in managerial positions earned \$50.88/hour while the Wyoming average was \$42.71/hour. Those in administrative positions earned \$26.23/hour, customer service positions earned \$43.51/hour, skilled workers earned \$28.27/hour and unskilled workers earned \$23.45/hour. Disaggregated by gender, in 2017 men earned an hourly wage on average of \$29.49 whereas women only earned \$21.94.²

Benefits

Consistent with every year surveyed, all companies employing in this field reported a full benefits package including medical and dental insurance, a prescription plan, a vision plan and retirement savings plans.

Turnover

Turnover rates within the industry are relatively low compared to the Wyoming average. In 2017, no turnover was reported in administrative or customer service positions. Skilled labor reported a 3.9% turnover rate, unskilled labor 5.6% and managers 8.3%. Compared to the 28.9%

² Wyoming average wages obtained from *Occupational Employment and Wages March 2017* from Wyoming Department of Employment, Research & Planning Office.

average turnover rate for 2017Q1 through 2017Q3 across all industries employees tend to enjoy more job stability.³

Survey Costs

Due to the limited number of businesses contacted for this report, the cost to mail was nominal. As a result, the primary expense associated with this report is the time spent following up with the respondents and reviewing and analyzing the data received as well as the preparation of this report. The Department estimates office personnel expended 40 to 50 hours over the course of several weeks on this endeavor.

REMI Economic Analysis

REMI Analyses: Economic Impacts

The analyses of the economic impacts of the sales and use tax exemptions for purchases and rentals of qualifying computer equipment necessary for the operation of a data processing center was prepared using the Regional Economic Models, Inc. (REMI) PI+ model. REMI PI+ is the next generation Policy Insight model built exclusively for Wyoming. It is an integrated model that combines the best features of the input-output, general equilibrium, econometric, and economic geography methodologies. PI+ is also a dynamic rather than a static model allowing for year-by-year analysis of the total regional effects of any specific policy initiative.

Category <i>(Change from Baseline)</i>	Years					Average
	2017	2018	2019	2020	2021	2017-2030
Total Employment - Jobs	-54	-81	-98	-110	-117	-108
Finance & Insurance	-8	-14	-18	-21	-23	-22
Retail Trade	-10	-13	-15	-16	-17	-16
Construction	-9	-14	-16	-17	-16	-11
Information	-3	-5	-6	-7	-8	-8
All Other	-24	-35	-43	-49	-53	-51
Population - Individuals	-24	-46	-66	-86	-104	-120
Wages and Salaries	-\$1.5	-\$2.3	-\$3.0	-\$3.4	-\$3.8	-\$3.7
Personal Income	-\$2.3	-\$3.6	-\$4.6	-\$5.6	-\$6.4	-\$6.6
Disposable Personal Income	-\$2.0	-\$3.2	-\$4.1	-\$5.0	-\$5.7	-\$5.9
Gross Domestic Product	-\$4.0	-\$6.1	-\$7.5	-\$8.5	-\$9.1	-\$8.8
Output	-\$8.6	-\$13.2	-\$16.3	-\$18.5	-\$19.8	-\$19.0
<i>Note: All dollar amounts are expressed as millions of fixed (2016) dollars.</i>						

³ Turnover rates for 2016Q1 & 2016Q2 obtained from *Wyoming Turnover Report 1992Q1 to 2017Q1*, published March 30, 2017 from Wyoming Department of Employment, Research & Planning Office. 2017Q1 through 2017Q3 obtained from *Trends*, from Wyoming Department of Employment, Research & Planning Office.

The economic impact of the removal of the sales tax exemption for purchases and rentals of qualifying computer equipment necessary for the operation of a data processing center was modeled in REMI as an increase in the production costs for the data center industry of \$15.0 million per year beginning in 2017. This exemption removal would result in an average annual loss of 108 jobs and a decrease in GDP of \$8.8 million per year over the period of 2017 to 2030 when compared to the baseline scenario.

The finance & insurance, retail trade, construction, and information sectors will incur the majority of the job losses. Direct job losses are attributed to finance & insurance, construction, and information sectors while the retail trade sector will be adversely impacted from the decline in disposable personal income.

Key Definitions

Total Employment comprises estimates of the number of non-farm jobs, full-time plus part-time, by place of work. Full-time and part-time jobs are counted at equal weight. Includes direct, indirect, and induced jobs.

Population reflects mid-year estimates of people, including survivors from the previous year, births, special populations, and three types of migrants (economic, international, and retired).

Wages and Salaries are the monetary remuneration of employees, including the compensation of corporate officers; commissions, tips, and bonuses; voluntary employee contributions to certain deferred compensation plans, such as 401(k) plans; and receipts in kind that represent income. Wages and salaries disbursements are affected by changes in Wage Rate and Employment.

Personal Income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

Disposable Personal Income equals personal income minus personal taxes.

Gross Domestic Product or **GDP** is the market value of goods and services produced by labor and property. It is often referred to as "value added" and is equal to its gross output (sales or receipts and other operating income, plus inventory change) minus its intermediate inputs (consumption of goods and services purchased from other industries or imported).

Output is the amount of production, including all intermediate goods purchased as well as value-added (compensation and profit). Output can also be thought of as sales or supply or simply price multiplied by quantity ($P \times Q$).

About the REMI PI+ Model

The REMI PI+ model incorporates aspects of four major modeling approaches: Input-Output, General Equilibrium, Econometric, and Economic Geography. Each of these methodologies has

distinct advantages as well as limitations when used alone. The REMI integrated modeling approach builds on the strengths of each of these approaches.

The REMI model at its core has the inter-industry relationships found in Input-Output models. As a result, the industry structure of a particular region is captured within the model, as well as transactions between industries. Changes that affect industry sectors that are highly interconnected to the rest of the economy will often have a greater economic impact than those for industries that are not closely linked to the regional economy.

General Equilibrium is reached when supply and demand are balanced. This tends to occur in the long run, as prices, production, consumption, imports, exports, and other changes occur to stabilize the economic system. For example, if real wages in a region rise relative to the U.S., this will tend to attract economic migrants to the region until relative real wage rates equalize. The general equilibrium properties are necessary to evaluate changes such as tax policies that may have an effect on regional prices and competitiveness.

REMI is sometimes called an “Econometric model,” as the underlying equations and responses are estimated using advanced statistical techniques. The estimates are used to quantify the structural relationships in the model. The speed of economic responses is also estimated, since different adjustment periods will result in different policy recommendations and even different economic outcomes.

The New Economic Geography features represent the spatial dimension of the economy. Transportation costs and accessibility are important economic determinants of interregional trade and the productivity benefits that occur due to industry clustering and labor market access. Firms benefit having access to a large, specialized labor pool and from having access to specialized intermediate inputs from supplying firms. The productivity and competitiveness benefits of labor and industry concentrations are called agglomeration economies, and are modeled in the economic geography equations.

The primary national, state, and county data source for REMI PI+ is the Bureau of Economic Analysis (BEA) State Personal Income (SPI) and Local Area Personal Income (LAPI) series (which also include employment and total population at both the state and county level). REMI also relies on numerous other data sources including the Bureau of Labor Statistics, Energy Information Administration, Center for Disease Control and Prevention, National Center for Health Statistics, and the Department of Defense. *Source: remi.com.*



Wyoming Business Council Regional Project Assessment System (RPAS)

Data center tax incentive economic analysis

The RPAS model has been developed for Wyoming by Applied Economics, LLC of Phoenix, Arizona, www.aeconomics.com. The model identifies measurable effects associated with either a specific activity in a specific location or the value of economic and revenue impacts of existing businesses. The model has multipliers for 66 NAICS-based industry types based on Minnesota IMPLAN group data. It provides the value of additional output for job creation in addition to the direct jobs created and measures direct and indirect property and sales tax benefits to local and state revenues.

- Jobs, wages and output:
 - There has been significant growth in the last several years in data hosting jobs and wages.
 - Not all jobs created are reflected in the numbers below. Data centers often contract out a significant amount of work.
 - The economic output from these direct wages is significant. The numbers below do not include indirect economic output of suppliers.

Year	Workforce	Average Wage	Total Direct Wages	Output from Employment Income
2010-2012	15	\$ 51,798	\$ 776,970	\$ 2,231,226
2013	116	\$ 57,955	\$ 6,722,780	\$ 19,305,821
2014	106	\$ 55,758	\$ 5,910,348	\$ 16,972,759
2015	144	\$ 52,580	\$ 7,571,520	\$ 21,743,750
2016	209	\$ 60,344	\$ 12,611,896	\$ 36,217,608
2017	198	\$ 55,465	\$ 10,956,288	\$ 31,463,195
Totals			\$ 44,549,802	\$ 127,934,359

* The year, workforce numbers and average wage are from data available at Department of Workforce Services, Research and Planning Labor Market Information, Quarterly Census of Employment and Wages.

* Output represents the total economic activity generated. It is derived from employment income and calculated by the WBC economic impact model. The inputs are direct employment numbers and average wages. The model then calculates additional multipliers of the wages rolling over in the community. Real estate market valuation for tax purposes

The market valuation of data centers shows a trend of steady growth.

	2018	2017	2016	2015	2014	2013
Greenhouse Data	7,997,420	7,914,648	8,007,395	7,792,972	351,654	
Microsoft	90,092,646	91,354,921	89,767,721	211,623	168,703	164,473
EchoStar	25,514,621	83,634,989	4,492,384	4,492,384	4,492,384	4,492,384
Mountain West	1,377,561	879,690	931,730	963,010	939,550	568,540
Ptolemy	1,577,172	1,494,228	1,477,077	1,598,498	1,530,624	1,469,670
Totals	126,559,420	185,278,476	104,676,307	15,058,487	7,482,915	6,695,067

The following numbers do not include electricity tax or construction sales tax. However, data centers generate significant construction sales tax, electricity sales tax, property tax and indirect sales tax.

Year	Annual Capital Expenditures	Local Real Property Tax	Local Personal Property Tax	Local Sales Taxes	Total Local Taxes	State Sales Tax	Total State and Local Taxes	Unrealized Revenue from Sales Taxes	Net Return to State and Local Governments
2012	63,105,174	73,195	343,032	4,777	421,004	13,451	434,455	3,319,332	(2,884,877)
2013	316,136,131	342,551	2,003,937	41,330	2,387,818	116,386	2,504,204	16,976,510	(14,472,306)
2014	164,119,341	412,285	2,528,809	36,335	2,977,429	102,321	3,079,750	9,080,909	(6,001,159)
2015	187,851,478	1,152,648	2,976,447	46,547	4,175,642	131,080	4,306,722	10,106,410	(5,799,688)
2016	319,500,000	2,502,173	3,949,519	77,534	6,529,226	218,340	6,747,566	17,908,627	(11,161,061)
2017	185,638,850	3,265,716	4,035,409	67,356	7,368,481	189,678	7,558,159	10,488,595	(2,930,436)
Totals	1,236,350,974	7,748,568	15,837,153	273,879	23,859,600	771,256	24,630,856	67,880,383	(43,249,527)

- Approximately half of the property tax supports local school mill levies
- Direct and indirect property and sales tax is calculated by the WBC economic impact model. The inputs are assessed property valuation and equipment capital expenditures. The model then calculates the direct property and sales tax paid to local and state. It also creates and calculates multipliers for direct employees and indirect employment increase in their property and sales tax spending.